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ABSTRACT

This brief discusses student borrowing to pay for college in the 1990s. Between 1990 and 2000, student loan volume more than doubled in real terms from $16.4 billion to $37.5 billion, and the number of loans made annually also more than doubled, from 4.5 million to 9.4 million. Data, primarily from the National Postsecondary Student Aid Study, reveal, however, that while the borrowing trend bears careful monitoring, the majority of students who receive postsecondary degrees or certificates do not borrow to finance their education, for most of those who do borrow, debt levels remain reasonable. Some groups of students do borrow very substantial amounts. Professional students, who make up a very small share of degree recipients, borrow large amounts in federal student loans, and in many cases, in private loans as well. Another area of growing concern is students' use of credit cards. (SLD)

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Student Borrowing in the 1990s

American Council on Education

November 2001

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ACE Issue Brief

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Student Borrowing in the 1990s

Between 1990 and 2000, student loan volume more than doubled in real terms from $16.4 billion to $37.5 billion. The number of loans made annually also more than doubled from 4.5 million to 9.4 million.[1] This increase in student borrowing was fueled, in large part, by legislative changes enacted early in the decade. In the 1992 reauthorization of the Higher Education Act, Congress broadened eligibility for subsidized federal student loans, raised annual loan limits, and created a new unsubsidized student loan program open to all students, regardless of income. As a result, annual student loan volume spiked upward, rising by 50 percent in the two years after these changes took effect. In 1998, when the Higher Education Act again was reauthorized, Congress and the higher education community agreed that annual and cumulative student borrowing limits should not be increased. In the two years since 1998, student loan volume and the number of new loans have increased by a much more modest 6 percent.

Two other important indicators of borrowing levels are the percentage of students who finish degree or certificate programs with student loans and the median amounts they borrow. New information from the National Postsecondary Student Aid Study (NPSAS), a nationally representative survey conducted by the U.S. Department of Education's National Center for Education Statistics, allows for a direct comparison of these indicators during the 1990s. It shows that, while student borrowing has increased substantially since 1992, borrowing levels vary significantly for graduates of different degree programs. The data also reveal that, while the borrowing trend certainly bears careful monitoring, the majority of students who receive postsecondary degrees or certificates do not borrow to finance their education and, for most of those who do borrow, debt levels remain reasonable.

Borrowing Trends in the 1990s

Table 1 describes the distribution of degree and certificate recipients by type of program and institution in 1999–2000. Table 2 summarizes the share of students completing degree and certificate programs with federal student loan debt, the median amounts they had borrowed, and the monthly payments associated with the median amounts borrowed under a standard repayment scenario for 1992–93, 1995–96, and 1999–2000. It is important to note that debt is not equivalent to debt burden. A low-income individual may have very little debt, but that debt may impose a substantial burden. Conversely, affluent individuals may carry substantial debt that creates little or no financial burden.

In general, these tables show that both the percentage of degree and certificate recipients borrowing and the median amounts of debt they have accrued have increased substantially for many categories of students since 1992–93. Most of the increase in the percentage of students graduating with federal student loans occurred immediately after the 1992 legislative change. Since 1995–96, the percentage of degree and certificate recipients borrowing has not increased substantially, but the median amounts borrowed have continued to rise for many categories of students. The results for certificate earners and for each type of degree recipient are summarized below:

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- Bachelor's Degrees. Bachelor's (BA) degree recipients[2] represent 55 percent of 1999–2000 undergraduate degree earners and 44 percent of all graduates. In 1999–2000, more than 60 percent of all bachelor's degree recipients graduated with some federal student loan debt, and the median amount they borrowed was $15,375 at public institutions and $17,250 at private colleges and universities.[3] Monthly payments for these amounts are $179 and $200, respectively, up from $75 and $114 in 1992–93.

  Without available data on the starting salaries of BA recipients who borrowed, it is impossible to estimate the difficulty these students will have managing their student loan debt. The National Center for Education Statistics currently is collecting starting salary data for the class of 1999–2000. When that data becomes available in approximately one year, analysts will better understand the burden imposed by the amount students have borrowed. In the meantime, a proxy is the average income of all BA recipients age 18 to 24. According to the U.S. Census Bureau these individuals, who may or may not have borrowed a student loan, had annual income averaging $32,100 in 2000.[4] This equates to $2,675 in monthly gross income. The median student loan payment is equivalent to roughly 7 percent of this amount, below the 8 percent threshold that many in the lending community consider manageable.

- Associate Degrees. More than 20 percent of all degree recipients, and more than one-quarter of undergraduate degree recipients in 1999–2000, earned associate of arts (AA) degrees. Eighty percent of these students attended community colleges. The share of AA recipients borrowing federal student loans did not increase substantially during the 1990s, but the median amount borrowed did rise by about 75 percent to $5,194. Nonetheless, for the 28 percent of AA recipients with federal student loans, the monthly payment for the median amount borrowed remained relatively low at $60 per month.

- Certificates. Fifteen percent of all 1999–2000 graduates, and 19 percent of undergraduates who completed college in that year, earned certificates in vocational fields such as cosmetology or computer repair. Most of these students attended for-profit schools or public community colleges. Students who earn certificates from for-profit institutions are three times more likely to have borrowed than those who complete AAs or certificates at community colleges, and are more likely to graduate with student loan debt than all other degree earners except those earning professional degrees in fields such as law and medicine. Nonetheless, the median amounts borrowed by certificate earners result in relatively low monthly payments ($4,610 and $6,364 which equate to monthly payments of $54 and $75 for certificate earners from community colleges and for-profit institutions, respectively). These amounts are manageable for most certificate recipients, but historically these students are at higher risk of defaulting on their student loans, so the trend of increased debt among this group bears careful monitoring.

- Master's Degrees. More than half of 1999–2000 master's (MA) degree recipients, who represent 70 percent of those earning graduate degrees and 14 percent of all degree recipients, graduated with federal student loan debt incurred as undergraduates and/or graduates.[5] MA recipients who borrowed had a median debt of $17,341 at public institutions and $24,409 at private universities. Although a similar share of master's degree students at public and private institutions borrowed, those at private institutions borrowed considerably more. These amounts translate into monthly payments of $201 and $283 for public and private institution students, respectively. Most master's degree students earn degrees in business, education, or the arts and sciences. MBA recipients in 1999–2000 borrowed the highest median amount at $28,520, followed by arts and

science graduates at $22,159, and education graduates at $16,677. The percentage of students graduating with debt does not vary substantially based on field of study.

- Professional Degrees. Professional degree recipients in fields such as law, medicine, and dentistry, who account for 14 percent of graduate degree earners but only 3 percent of all degree recipients, are the most likely of all student categories to borrow. They amass, by far, the greatest federal student loan debt. At public institutions, 87 percent of first-professional graduates took out student loans and the median amount they borrowed was $61,417. At private institutions, the percentage of graduates who borrowed is similar (83 percent of graduates), but the median amount borrowed is considerably higher ($73,533). These borrowing levels result in monthly payments of $713 and $854 for graduates of public and private institutions, respectively.

  Among all degree types, professional students median loan amount has increased the most rapidly during the 1990s, almost tripling since 1992–93 in current dollars. The vast majority of first-professional students complete degrees in law, medicine, and dentistry, fields that traditionally result in higher than average incomes. Further, professional schools are well aware of these borrowing patterns and provide extensive debt and general financial management information and counseling for their students. Nonetheless, because the amount these students borrow has increased so rapidly, research is needed to determine whether graduates personal or career decisions are affected by their level of indebtedness.

- Doctoral Degrees. Doctoral students, who represent 8 percent of 1999–2000 graduate degree earners but only 2 percent of all degree recipients, were less likely to graduate with student loan debt than those who earned master's degrees. Half of these students took out loans and borrowed a median amount of $24,078. While still relatively low (considering the amount of time doctoral students spend in school), this amount grew substantially during the 1990s. The payment associated with the median amount borrowed by doctorate earners has more than doubled in current dollars from $130 in 1992–93 to $280 in 1999–2000. This amount is equivalent to 8 percent of the average salary of all assistant professors, regardless of field.[6] For those in fields that pay less than the national average, repaying this median amount could prove burdensome.

Undergraduate Borrowing by Family Income

Students at all income levels now have access to federal student loans, and they clearly are taking advantage of this capital. Table 3 shows that 44 percent of dependent BA recipients from families with income of $100,000 or more—the vast majority of whom were not eligible for federal student loans prior to 1992—now borrow to finance their education. Further, those upper-income students who take out student loans borrow about the same median amount as their low-income peers. In 1992–93, only 8 percent of BA recipients in this income group had student loans and the median amount borrowed was only $4,097—less than half the median amount borrowed by low-income dependent students. Low-income dependent students saw the smallest change of all income groups in both the percentage who borrowed and the median amount borrowed. Nonetheless, these students are more likely to graduate with student loan debt than their more affluent peers.

The pattern of change among independent BA recipients, all of whom have always been eligible for federal student loans, did not vary appreciably by income category. Low-income independent

students remain more likely to graduate with debt and to have borrowed a higher median amount than middle- and upper-income independent students.

Private Student Loans and Credit Cards

A comprehensive picture of student indebtedness would have to include at least two other items: private student loans and credit cards. The limited evidence available suggests that borrowing through private, bank-based student loan programs is growing rapidly. The College Board estimates that students borrowed almost $4 billion through these programs in 2000–01, up from just under $1.5 billion in 1995–96.[7] Compared to the over $38 billion loaned through the federal programs in 2000–01, private loan volume still is relatively small and does not appear to appreciably affect total student indebtedness for most students. Data are not available on the cumulative private loan borrowing of degree recipients across their academic career, but only 3 percent of certificate and AA completers had taken out a private loan in 1999–2000 and only 5 percent of BA recipients had done so.[8] Among graduate students, only 3 percent of MA earners and 1 percent of doctorate earners had borrowed a private loan in 1999–2000.

An important exception is professional degree recipients: 23 percent of these students took out a private loan in 1999–2000. Among public institution graduates, 13 percent took out a private loan in 1999–2000; the median amount these students borrowed was approximately $7,700. At private institutions, 31 percent of professional degree recipients took out private student loans in that year; the median loan amount was approximately $8,700.

Anecdotal evidence suggests that the data on private student loans are incomplete. Continued monitoring of private student borrowing is particularly important as these loans carry increased costs to students through higher fees and interest rates than their federal counterparts.

Credit card debt also is a concern, especially for traditional-aged undergraduates who typically have little experience in managing their personal finances. The 1999–2000 version of NPSAS included questions on credit card use for the first time. It shows that almost 80 percent of dependent undergraduate degree recipients owned at least one credit card as students and that 46 percent of these cardholders carried a balance on at least one of their cards from month to month. The median amount those students carried on their cards at the time of the survey was $1,600.[9]

Independent undergraduates were no more likely to have cards, but they were more likely than dependent students to carry a balance (59 percent of cardholders), and their median balance was higher at $2,200. These results suggest that independent students, who must maintain their own households and generally receive little or no assistance from their parents, rely more heavily on credit cards than their younger, dependent peers.

Graduate and professional students appear even more reliant on credit cards. More than 90 percent of graduate degree recipients possess at least one credit card, and 45 percent report that they typically carry a balance from month to month. The median balance these students carry is $3,900.

Given the high interest rates on most credit cards, and the fact that many graduates will incur substantial personal expenses as they transition from college to full-time work, the level of credit card debt could have serious implications for graduates as they begin repaying their student loans.

Summary

In general, while the percentage of students borrowing and the median amounts they borrow have increased substantially through the 1990s, most students either do not borrow or graduate with manageable amounts of federal student loan debt. Yet certain groups of students do borrow very substantial amounts. In particular, professional students—who make up a very small share of degree recipients—borrow large amounts in federal student loans and, in many cases, in private loans as well. Another area of growing concern is students' use of credit cards.

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[1] ACE Fact Sheet on Higher Education, based on data from the U.S. Department of Education, Office of Postsecondary Education. Facts Sheets are available on line at www.acenet.edu/resources/fact-sheets.

[2] Throughout this report, the terms BA and MA are used to refer to those who graduate with bachelor's of arts (BA), bachelor's of science (BS), master's of arts (MA), and master's of science (MS) degrees.

[3] The figures in this report have not been adjusted for inflation. As a result, they overestimate the true increase in the median amount borrowed by college graduates.

[4] U.S. Census Bureau. March 2000 Current Population Survey. This estimate is for all year-round, full-time workers age 18 to 24 with a bachelor's degree.

[5] All debt figures for graduate degree recipients include federal student loans borrowed as undergraduate and graduate students.

[6] U.S. Department of Education, National Center for Education Statistics. *Digest of Education Statistics: 2001,* Table 238 (Washington, DC: U.S. Department of Education).

[7] The College Board. *Trends in Student Aid: 2001* (Washington, DC: The College Board, 2001).

[8] These data are based on student reports and generally are not as accurate as the data on federal student loans, which are based primarily on federal and institutional records.

[9] These estimates are higher than those reported elsewhere, most likely because in this case the estimate is restricted to students completing a degree. Previous research has shown that freshmen and sophomores are less likely to have credit cards than juniors and seniors.

Table 1
Distribution of Students by Degree Program, and Distribution of Degree Recipients by Type of Institution, 1999–2000

Student Level and Program	All Degree Recipients (%)	Degree Recipents by Level (%)	Distribution of Degree Recipients by Type of Institution				
			Public Community College (%)	Public College or University (%)	Private College or University (%)	For-profit Institution (%)	Other Institutions (%)
Undergraduate							
Certificate	15.0	18.6	57.9	5.3	2.9	30.9	3.0
Associate	21.4	26.7	79.2	5.6	2.4	10.4	2.4
Bachelor's	44.0	54.7	N/A	65.2	33.5	1.3	–
Total	80.4	100.0	31.2	38.9	19.8	9.1	1.2
Graduate							
Master's	13.8	70.1	N/A	55.7	41.4	3.0	N/A
Doctorate	1.7	8.4	N/A	66.0	34.0	–	N/A
Professional	2.8	14.2	N/A	41.0	59.0	–	N/A
Post-BA Certificate/Other	1.4	7.2	N/A	63.6	28.1	8.3	N/A
Total	19.6	100.0	N/A	55.0	42.3	2.7	N/A

Note: Details may not add to totals due to rounding. Because of the small size of this population, no estimates are included for post-BA certificate recipients.
N/A not applicable
– less than one percent

Source: U.S. Department of Education, National Center for Education Statistics. National Postsecondary Student Aid Studies: 1992–93, 1995–96, and 1999–2000.

Table 2
Cumulative Amount of Federal Student Loans Borrowed by Degree Recipients in the 1990s

Program and Institutional Type	1992–93			1995–96			1999–2000		
	Percentage Who Borrowed (%)	Median Amount Borrowed ($)	Monthly Payment for Median ($)	Percentage Who Borrowed (%)	Median Amount Borrowed ($)	Monthly Payment for Median ($)	Percentage Who Borrowed (%)	Median Amount Borrowed ($)	Monthly Payment for Median ($)
Certificate									
Public Community College	14.1	3,302	38	26.0	3,153	37	22.7	4,610	54
For-profit Institution	50.1	2,634	31	66.1	4,170	48	73.8	6,364	74
Associate Degree									
Public Community College	22.8	2,996	35	24.2	4,530	53	27.9	5,194	60
Bachelor's Degree									
Public College or University	38.1	6,449	75	52.4	10,342	120	59.6	15,375	179
Private College or University	45.5	9,793	114	55.4	13,983	162	66.5	17,250	200
Master's Degree									
Public University	33.8	8,502	99	55.5	12,496	145	54.2	17,341	201
Private University	39.0	9,343	108	54.4	19,213	223	59.1	24,409	283
Doctoral Degree									
All Institutions	45.0	11,191	130	34.0	14,084	164	50.0	24,078	280
Professional Degree									
Public University	72.2	20,884	242	80.2	47,183	548	87.0	61,417	713
Private University	75.1	26,813	311	74.5	54,214	629	83.3	73,533	854

Notes: Figures reflect cumulative student loan borrowing as of the year indicated. For graduate students, this includes debt incurred as an undergraduate. Monthly payment is calculated using the median amount borrowed, assuming an annual interest rate of 7 percent under the standard 10-year repayment plan.

Source: U.S. Department of Education, National Center for Education Statistics. National Postsecondary Student Aid Studies: 1992–93, 1995–96, and 1999–2000.

Table 3
Cumulative Amount of Federal Student Loans Borrowed by Bachelor's Degree Recipients during the 1990s, by Student Dependency Status and Family Income

Dependency Status and Family Income	1992–93		1995–96		1999–2000	
	Percentage Who Borrowed (%)	Median Amount Borrowed ($)	Percentage Who Borrowed (%)	Median Amount Borrowed ($)	Percentage Who Borrowed (%)	Median Amount Borrowed ($)
Dependent Students						
Less than $30,000	66.2	9,008	71.0	12,266	70.0	15,402
$30,000 to $49,999	48.7	8,020	63.7	11,981	59.5	17,072
$50,000 to $69,999	25.6	6,237	42.6	11,130	63.9	16,748
$70,000 to $99,999	23.3	7,663	35.2	10,147	58.3	16,326
$100,000 or more	8.2	4,097	17.9	8,248	44.3	15,267
Independent Students						
Less than $20,000	56.5	8,115	68.3	12,142	75.0	18,113
$20,000 to $49,999	44.4	7,304	55.3	10,990	63.1	14,957
$50,000 or more	30.5	4,973	41.9	7,907	44.9	10,513

Source: U.S. Department of Education, National Center for Education Statistics. National Postsecondary Student Aid Studies: 1992–93, 1995–96, and 1999–2000.

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